

# Status of Long-Term Financial Plan and Next Steps

## Long-Term Financial Outlook and Strategies

June 4, 2024  
Committee of the Whole



# Topics

1. Need for a Long-Term Financial Plan (LTFP)
2. Operating Update respecting 2022 LTFP
3. Debenture Strategy
4. Reserve Strategy
5. Capital Update Respecting 2022 LTFP
6. Next Steps



# Need for LTFP

- A LTFP incorporates financial policies of a municipality into one document
- Aids in overall financial planning including how much debt a municipality can handle
- Speaks to municipality's financial resiliency, capital infrastructure planning and expected revenues over time



# Components of LTFP

City's LTFP includes:

1. Revenue Strategy
2. People Strategy
3. Reserve Strategy
4. Debt Strategy
5. Capital Forecast
6. Operating Forecast
7. Financial Gap



# Operating Update Respecting 2022 LRFP

# LTFP and Current Assumptions

Revenue/Expense	LTFP	2025 to 2027
Tax Levy	4.5%	8.56% 2025 4.50% 2026 4.50% 2027
Growth	1.25%	2%
Supplemental Tax	\$400K	\$2M
User Fees	2 to 2.5%	3% Move toward Cost Recovery
New Positions	\$400K/annum	\$1.25M/annum
Wage Increase	2%	3%
Debenture Interest	3%	4.5%

# Comparison of LTFP to Actual/Budget for 2022 2023 and 2024 (in \$M)

		2022 Actual			2023 Actual			2024 Budget	
	%	Revenue	Expense	%	Revenue	Expense	%	Revenue	Expense
LTFP	4.5	(224.5)	224.5	7.77	(234.7)	234.7	8.71	(244.8)	244.8
Actual	4.5	(243.5)	238.9	4.5	(253.9)	250.9	4.5	(252.9)	252.9
Surplus		\$4.6M Surplus			\$3M Surplus			\$ Not Known Yet	

## Main Drivers of 2022 2023 and 2024 Variances:

- Increased Pandemic and Human Services Grants/Increase to External Agencies not in LTFP
- Community Program Fees
- LTFP Debenture Principle and Interest
- Annual Surpluses not included in LTFP
- Increase in Supplementary taxes greater than LTFP projections



# Lessons learned and refinements to 2025 to 2027 Operating forecasts

- June 2025 Asset Management Plan will continue to refine expenditure and financing
- Refined debt repayment assumptions – aligning to project cash flow
- Refined wages assumptions – including estimated new positions and global increase adjustments
- Refined revenue projections – revenues have recovered from pandemic and exceeding pre pandemic levels



# Comparison of LTFP to Current 2025 2026 2027 Forecast (in \$M)

		2025			2026			2027	
	%	Revenue	Expense	%	Revenue	Expense	%	Revenue	Expense
LTFP	8.83	(256.1)	256.1	7.14	(266.4)	266.4	4.68	(275.5)	275.5
Forecast	9.1	(264.7)	264.7	4.5	(274.3)	274.3	4.5	(282.9)	282.9
Variance		(8.6)			(7.9)			(7.4)	

## Main Drivers of 2025 2026 and 2027 Variances:

- Increase in Supplementary taxes
- Increase in Community Program User Fees
- Decrease in debt payment projections
- Right sizing of Wage budget
- Building up reserve transfers

# Water and Wastewater (WWW) LTFP

- No major variances in reserve transfers or revenue as 3% applied annually per WWW Rate Study
- Capital Budget consistent year over year
- Reserver transfers increased from LTFP due to Operating Surpluses
- 2025 to 2027 anticipated to adhere to WWW Rate Study with 3% rate increase

# WWW Comparison of LTFP to Actual/Budget for 2022 2023 and 2024 (in \$M)

		2022			2023			2024	
	%	Water	Sewer	%	Water	Sewer	%	Water	Sewer
LTFP	3.0	(2.8)	(1.2)	3.0	(2.9)	(1.2)	3.0	(2.9)	(1.2)
Actual	3.0	(3.4)	(1.5)	3.0	(3.7)	(2.9)	3.0	(3.9)	(.2)
Surplus		\$ .9M Surplus			\$2.5M Surplus			\$ - M Surplus	

## Main Drivers

- WWW experienced consistent 3% increase per Water Rate Study
- Surpluses transferred to WWW Reserve
- 2023 – Sewer - NWT Intensification and Interest higher than LTFP

# Operating Budget Next Steps

- Draft 2025 Operating Budget and work with Budget Committee
- Develop Revenue and People Strategy to inform LTFP update
- Continue assessing impact of Reserve and Debt Strategy on LTFP
- Analyze impact of capital program more intensively on Operating budget

# Debenture Strategy

# Debenture Strategy

- Debt is a tool to finance capital projects with goal of distributing cost over assets useful life
- Debenture Financing requires Council approval
- Debt principle and interest payments expensed in annual operating budgets for:
  - General Operating
  - Water and Wastewater
  - Kawartha Lakes Haliburton Housing Corporation
- Municipal Act governs maximum debt principle and interest payments

# What is an Annual Repayment Limit (ARL)

- ARL is maximum a municipality can pay in principal and interest
- ARL is prescribed in Ontario Reg 403/02 (Debt and Financial Obligation Limits) under Municipal Act 2001
- Generally, ARL is 25% of municipality's "own source" revenue less long-term debt servicing costs
- Debenture secured for growth projects fully funded via Development Charges



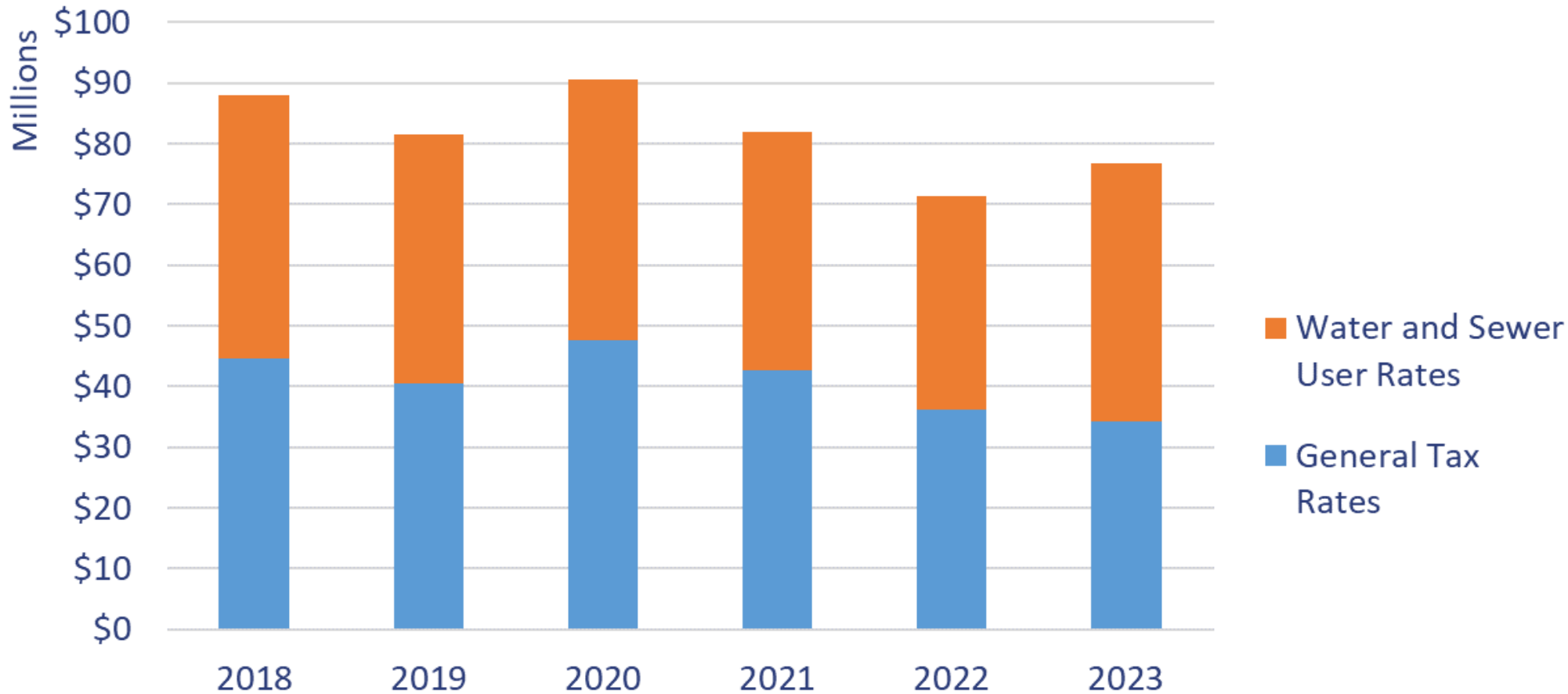
# What is in ARL/What is not?

What is included	What is not
Tax Supported Debt – State of Good Repair (SOGR) Eligible and Expansionary	
	Development Charge Growth Debt – Funding Source via DC Collections
Water/Wastewater SOGR Eligible (source is WWW user rates) and Expansionary	
	Development Charge Growth Debt – Funding Source via DC Collections
Affordable/KLHHC Housing Debt	
Victoria Manor debt for new build less grant portion from Ministry	Victoria Manor debt for new build covered by grant

# Debt Current State vs LTFP

Type of Debt	Dec 31 2023	LRFP Projections
General Levy Debt	\$34,227,852	\$70,764,504
Water/Wastewater Debt	42,566,556	54,197,111
KLH HC Housing Debt	10,864,848	29,076,635
DC Debt – Tax	10,512,946	29,421,769
DC Debt – WWW	15,356,433	11,905,640
Tile Drain Debt – Grant	250,716	250,716
<b>Total Debt Outstanding</b>	<b>\$113,779,351</b>	<b>\$195,616,375</b>

# Total Debt Outstanding 2018-2023

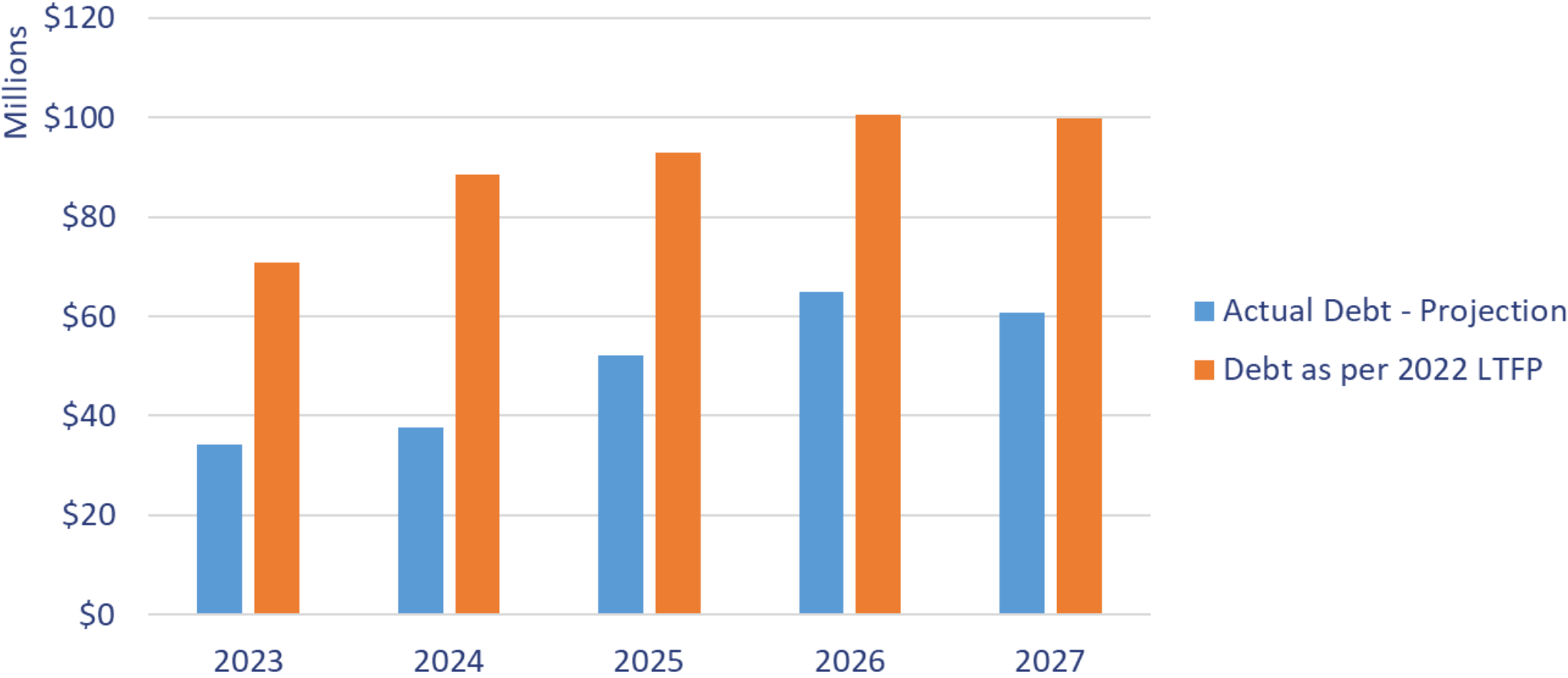


# Annual Repayment Limit (ARL) vs Debt Servicing Ratio (DSR)

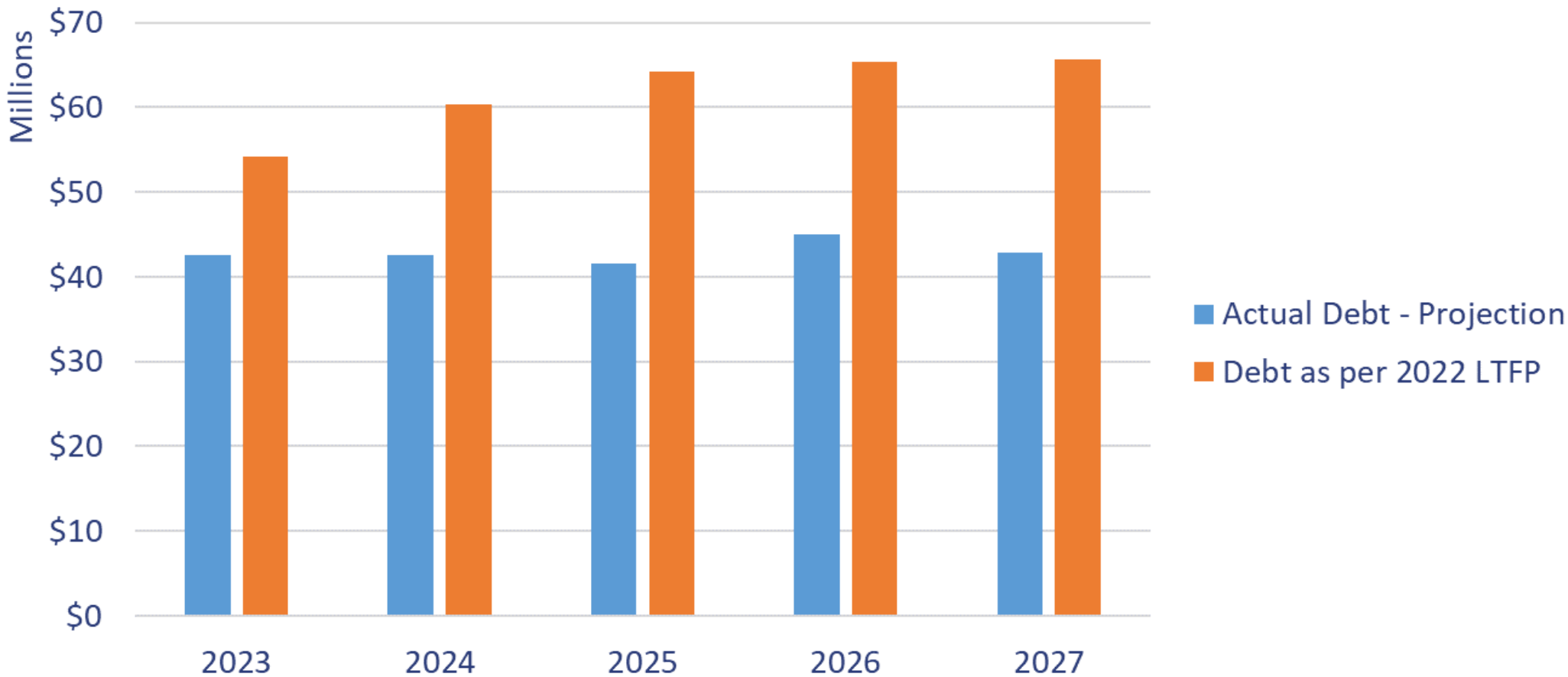
Debt Principle/Interest payments per Municipal Act s. 403/02 (in \$M)		
	ARL Without Grants/Reserve	DSR With Grants/Reserve
Total City Revenue 2023 FIR	301	301
Less: Grants/Reserve Fund revenue	(94)	-
Net Revenue	<u>207</u>	<u>301</u>
ARL/DSR	25% - 51.75	10% - 30.1
2023 Debt Principal and Interest Payments	<u>14</u>	<u>14</u>
2023 ARL/DSR Remaining	<b><u>37.75</u></b>	<b><u>17.00</u></b>

ARL 37.75M  
= est \$692M  
in Debt- 30  
year term

# Tax Levy Debt Outstanding 2023-2027 (in \$M)



# WWW Debt Outstanding 2023-2027



# Recommended Debt Restrictions Objectives and Reporting

- Long Term Goal = Debenture financing for Growth capital projects (Colborne Street Bridge) and Service Improvement capital projects (Summit Wellness Centre)
- Long Term Goal = State of Good Repair reducing reliance and limiting to projects deemed debenture eligible per recommended criteria
- Annual report to Council on Debt – done through presentation of Financial Statements
- Annual DC legislated report for DC balances and usage





# Long Term Debt Strategy Components

- Goal for capital financing term not exceed 40 years OR useful life of asset
- Benefit future taxpayers/ratepayers
- Affordable asset management plan, as well as, an affordable **operating** long range financial plan
- Cash flow major projects (>\$5M) based on construction reality
- Monitor Bank of Canada rates and optimize timing Long Term Debt
- Assess debenture term to match asset life – set criteria

# CHEST Funds Internal Borrowing

- Recommendation to borrow from Lindsay CHEST funds currently earning 3.5%
- Finance new Lindsay Para HQ at \$49M – Infrastructure Ontario (IO) rate is 5%
- WIN WIN - Lindsay CHEST fund earns higher interest rate and it reduces City's borrowing cost for multi-year Paramedic Headquarters

# Debt Strategy Next Steps

- Create CKL debt limit and policy as component of June 2025 Asset Management Plan (AMP)
- Staff analyze Lindsay CHEST investment strategy and seek Council approval to utilize as financing for Paramedic Headquarter project

# Reserve Strategy

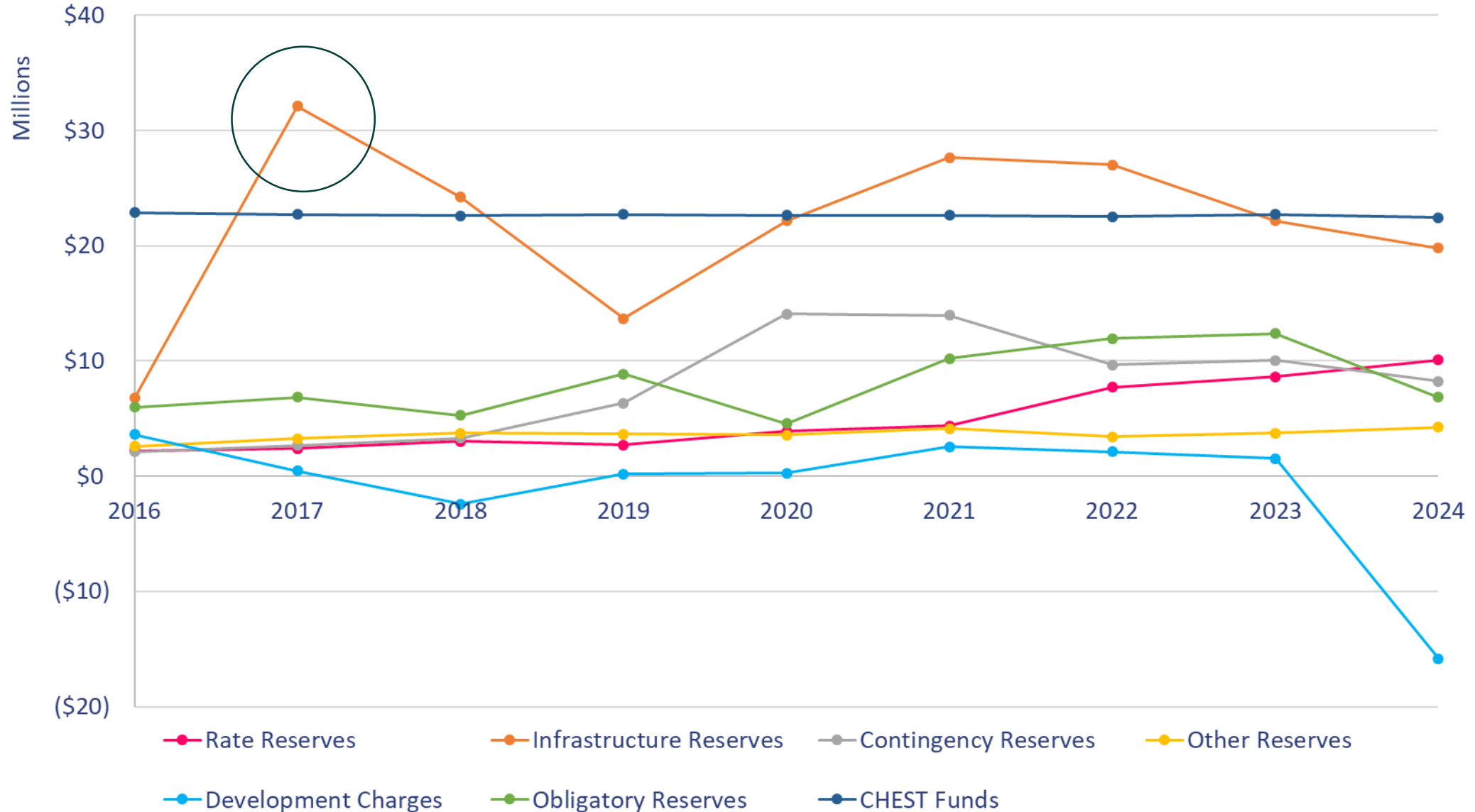
# Reserve Strategy

- A refined structure utilized for 2024 Budget and Council will see moderate surpluses in future
- City can no longer rely solely on annual surpluses to contribute to Reserves
- Therefore, need to develop proactive reserve strategy that builds up City reserves during annual budget process
- Reserve policy will position City to improve financial capacity, stability, transparency and accountability

# Reserve Types – Two Types

Reserve Funds	General Reserves
Restricted funds required by legislation, municipal by law, statute or legal agreement	Not restricted by Law or Statute
Must be used for designated purpose and interest income allocated	Council retains full discretion
➤ Obligatory Reserve Fund = Legislation attached. Segregated from general revenue for special purpose	Interest Income not allocated specifically to reserve
➤ Discretionary Reserve Fund = Municipal By Law. Set aside by Council for specific purpose and legislated by municipal by-law	Managed through Council approval for specific objectives

# General Reserve and Reserve Fund Balances at May 30, 2024





# General Reserve Balance May 30, 2024

Rate Reserves	
32035 - Property Development Reserve	2,432,437
32040 - HR Rate Stabilization Reserve	368,234
32255 - Election Reserve	263,094
32265 - Area Rate Stabilization Reserve	464,075
32275 - City Heritage Reserve	68,228
32280 - Library Reserve	864,817
32285 - General Tax Rate Stabilization	3,756,298
32290 - Fleet Maintenance Reserve	277,238
32295 - Human Services Rate Stabilization	1,584,347
	<b>10,078,768</b>
Contingency Reserves	
32090 - General Contingency Reserve	
- Uncommitted	2,068,994
- Committed	6,152,282
	<b>8,221,276</b>

# General Reserve Balance May 30, 2024

Infrastructure Reserves	
32030 - Sewer Infrastructure Reserve	6,104,874
32045 - Asset Management Reserve	2,450,704
32050 - Water Infrastructure Reserve	8,660,586
32070 - Fleet Reserve	2,321,886
32248 - Capital Contingency Reserve	
- Uncommitted	2,935,033
- Committed	3,843,829
	<b>26,316,912</b>
Other Reserves	
32065 - Fenelon Falls Powerlink Fund	1,129,396
32277 - Environmental Disaster Recovery	100,000
32278 - Primary Care Recruitment & Ren	500,000
32240 - Social Committee Reserve	89
32247 - Norland Dam Reserve	4,968
32100 - KLH Capital Reserve CKL/COH	542,403
32105 - KLH Capital Reserve CKL Only	1,461,901
32110 - Social Housing Staff Benefits	423,920
	<b>4,162,677</b>

# Reserve Fund Balance May 30, 2024

Development Charges	
24140 - DC - City of Kawartha Lakes	(15,499,286)
Obligatory Reserves	
24070 - Subdivider for Water - Emily	13,138
24090 - Woodville M.Cronin Estate Reserve	10,089
24095 - Grand Island Reserve-Fen Twp	33,456
24105 - DOOR Reserve	1,193,992
24110 - Infrastructure Gas Tax Reserve	(164,969)
24115 - Transit Gas Tax Reserve	457,381
24135 - City Parkland in Lieu	595,234
32205 - Building Reserve	3,711,050
32272 - Tree Canopy Reserve Fund	131,519
	5,980,890
Former Municipal Reserves	
24055 - Bobcaygeon H Wilkinson Library	1,611

# Reserve Fund Balance May 30, 2024

Legacy CHEST Funds	
24310 - Lindsay Legacy CHEST Reserve	19,461,436
24320 - Bob Legacy CHEST Reserve	2,812,272
24330 - Woodville Legacy CHEST Reserve	100,660
24340 - Omemee Legacy CHEST Reserve	1,967
24350 - FF Legacy CHEST Reserve	54,095
24360 - Kirkfield Legacy CHEST Reserve	378
	<b>22,430,808</b>

# LTFP Reserve Assumptions

1. PW fleet reserve continue to be funded by internal charges to departments
2. Fire fleet reserve increase to \$3.1M by 2027
3. Asset Management Reserve continue building with 3% annual increase. Targeted contribution of \$35M by 2031
4. Capital Contingency, General Contingency reserve and Insurance is \$500K/year indexed to inflation
5. WWW reserves is \$3.9M/year and indexed to inflation
6. Contributions continue for reserves such as: Doctor recruitment, Fenelon Falls Powerlinks, Norland dam, and Elections reserve
7. Designated proceeds, surpluses and deficits flow to specific reserves ie winter control



# Historic Surplus Disposition

Reserve	2023	2022	2021	2020	2019	2018	Total (in \$M)
General Tax Stabilization Reserve	1.2						1.2
Capital Contingency Reserve		2.0	1.0			0.2	3.2
Asset Management Reserve	1.1		4.2	3.3		2.1	10.7
General Contingency Reserve	0.2	1.5	0.5	1.3	3.0	0.6	7.1
Public Works Fleet Reserve		1.1					1.1
Fleet Maintenance Reserve			0.3				0.3
Public Works Fleet Reserve			1.0				1.0
Doctor Recruitment Reserve/Enviro Disaster Recovery	0.2						0.2
Primary Care Recruitment and Retention Reserve	0.5						0.5
<b>Total Reserve Transfers (\$)</b>	<b>3.2</b>	<b>4.6</b>	<b>7.0</b>	<b>4.6</b>	<b>3.0</b>	<b>2.9</b>	<b>25.3</b>

# General Reserve Transfers 2025 to 2027

Infrastructure Reserves	Optimal Balance	2025	2026	2027
Asset Management	Annually to Fund AMP	\$17,345,311	\$20,218,629	\$23,316,423
Capital Contingency	\$4M uncommitted	250,000	250,000	250,000
Public Works Fleet	\$2.5M	5,205,749	5,205,749	5,205,749
Fleet Reserve-Expansion	Expansionary Fleet Transfer	250,000	250,000	250,000
Fire Fleet	\$3.7M	2,300,000	2,500,000	2,700,000
Water/Sewer Infrastructure	WWW Rate Study	4,000,000	4,000,000	4,000,000
<b>Total</b>		<b>\$30,541,560</b>	<b>\$33,614,878</b>	<b>\$36,912,672</b>



# Transfer to Reserve/Optimal Balance – 2025-2027

All Other Reserves	Optimal Balance	2025	2026	2027
Tax Rate Stabilization	\$5.4 M	\$500,000	\$500,000	\$500,000
People Services Rate Stabilization	\$3.0 M	500,000	500,000	500,000
Contingency-Insurance/Uncommitted	\$10.9M	1,000,000	1,000,000	1,000,000
Total		\$2,000,000	\$2,000,000	\$2,000,000

# Surplus Disposition Recommendations

- Establish consistent practice to dispose of Annual Operating Surplus
- Recommend Surplus disposal to tax stabilization reserve following historical reserve transfers
- Build into transparent policy to be approved by Council

# Next Steps

- Surplus Disposition Policy to Council Q3, 2024
- Continue Refining Optimal Reserve Balances
- Develop Development Charge strategy that includes optimal collection timing
- Reserve Policy to Council to inform June 2025 AMP



# Capital Update Respecting 2022 LTFP

# Capital Expenditure Variances: Summary

- Capital budgets/forecasts are deviating from LTFP
  - Driven by combination of external and internal factors
  - City is working to improve integrated service, capital and financial planning

**Tax-Supported Capital Expenditure Variance Summary**  
Existing LTFP vs. Budget 2022-2024 and Revised Forecast 2025-2027

Source	2022	2023	2024	2025	2026	2027
Existing LTFP	70,973,000	66,389,000	91,215,000	81,967,000	93,947,000	84,699,000
Budget / Revised Forecast	68,993,000	57,553,000	70,599,000	142,104,000	168,999,000	146,538,000
Variance	(1,980,000)	(8,836,000)	(20,616,000)	60,137,000	75,052,000	61,839,000

**Water-Wastewater Capital Expenditure Variance Summary**  
Existing LTFP vs. Budget 2022-2024 and Revised Forecast 2025-2027

Source	2022	2023	2024	2025	2026	2027
Existing LTFP	9,691,000	12,330,000	13,488,000	14,884,000	13,792,000	13,202,000
Budget / Revised Forecast	9,691,000	6,006,000	12,271,000	18,906,000	31,046,000	28,945,000
Variance	-	(6,324,000)	(1,217,000)	4,022,000	17,254,000	15,743,000

# Capital Expenditure Variances: Budgets 2022-2024

- Capital expenditures fell below LTFP and major contributors to this include:
  - Deferral of Colborne St. Bridge, Colborne St. W. reconstruction and widening, and Murray St. Housing development
  - Paramedic Headquarters a multiyear capital project
  - Pause on 2023 WWW capital program to alleviate backlog
  - Constraints on project management resources, especially staff shortages
- The (\$31.4M) tax-supported variance over 2022-2024 is:
  - \$7.0M increase in baseline capital
  - (\$38.4)M reduction in expansionary capital

# Capital Expenditure Variances: Revised Forecast 2025-2027

- Forecasted capital expenditures have increased substantially beyond LTFP, and major contributors include:
  - Capital cost inflation, especially for bridges and facilities
  - Deferral of Colborne St. Bridge, Colborne St. W. reconstruction and widening, and Murray St. Housing development from pre-2025 years
  - Paramedic Headquarters construction into a multiyear capital project.
  - Kent St. W. resurfacing into full reconstruction (Victoria Ave. to Jane St.)
  - Addition of unplanned Fenelon Falls Bridge, Pioneer Park and Ops Park
  - Acceleration of growth-related WWWW projects such as Highway 7, Ridout St., Logie St. and Anne St. SPSs, Lindsay St. S. mains extension etc. to maximize grant \$
- The \$197M tax-supported variance over 2025-2027 is the sum of:
  - \$ 76M increase in baseline
  - \$121M increase in expansionary capital

# Capital Expenditure Variances: Mitigation Strategies

- Strategies for mitigating future variances include:
  - Complete key master plans, DC Study, and Consolidated AMP over 2024-2025
  - Strengthen integration between master plans, LTFP and budgets
  - Improve accuracy of LTFP and adopt an AMP-driven approach to budgeting
  - Expand and improve the asset condition assessment program



# Elimination of Deferred Tax-Supported Capital Needs

- 2024 capital budget included multiyear plan to eliminate \$89.3M deferred from 2023 and prior years.
- 2025 capital budget will be revise and account for inflation and other forecast revisions.

2024 Capital Budget: Planned Elimination of 2023 Deferred Tax-Supported Capital Needs			
Tentative Year	Expenditure (2024\$)	Share of Total	Comments
2024	22,050,000	24.68%	Included in Proposed 2024 Tax-Supported Capital Budget.
2025	33,366,000	37.35%	Included in long-term capital forecast.
2026	16,000,000	17.91%	Included in long-term capital forecast.
2027	17,536,000	19.63%	Included in long-term capital forecast.
Eliminated	391,000	0.44%	No longer required; deleted from long-term capital forecast.
<b>Total</b>	<b>89,343,000</b>	<b>100.00%</b>	

# Capital-Related Outlook for 2025 LTFP

- Revised capital forecast expected to reflect:
  - Foregoing variances and 2025 capital budget (once adopted)
  - 2023 Trails Master Plan
  - 2024 Transportation Master Plan, Active Transportation Master Plan, WWW Master Plan, Victoria Manor Master Plan, and Parks and Recreation Strategic Plan
  - 2025 Consolidated AMP
- Considerations respecting capital forecast revisions:
  - Balance between service levels and ratepayer expectations and affordability
  - Sustainability/adequacy of Asset Management Reserve and Dedicated Capital Levy
  - Integration of housing capital projects into the LTFP and capital budgets
  - Readiness for accelerated growth and development
  - Strategic use of grants, reserves and debt

# Capital-Related Preparations for Growth

- City experiencing growth and development and has been identified in housing pledge to the province.
- Key master plans and studies underway to enable City to manage/accommodate growth and meet housing pledge
  - Growth Management Strategy
  - Transportation Master Plan
  - Water-Wastewater Master Plan
  - Development Charges Background Study
- City must make critical and significant expansionary capital investments to facilitate growth

# Next Steps

- Prepare key capital-related inputs to LTFP:
  - Consolidated AMP to complete compliance with O.Reg. 588/17
  - DC Study to revise DC rates in light of master plans and increased capital costs
- Draft 2025 Capital Budget and work with Budget Committee
- Develop process to review Master Plan projects and consider update to Council ahead of annual Budget on major project
- Consider phase in of expansionary projects where possible
- Develop end to end impact of projects